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August 2018

**Audit of Cost Controls Within the
Baghdad Life Support Services Contract
Food Services Task Order
SAQMMA14F0721**

MIDDLE EAST REGION OPERATIONS



OIG HIGHLIGHTS

AUD-MERO-18-55

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OFFICE OF AUDITS
Middle East Region Operations

Audit of Cost Controls Within the Baghdad Life Support Services Contract Food Services Task Order SAQMMA14F0721

What OIG Audited

The Department of State (Department) provides life support services, including food and water, to personnel working in Iraq through Baghdad Life Support Services (BLiSS) food services task order SAQMMA14F0721. The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), awarded the BLiSS food services task order on March 1, 2014.

The Office of Inspector General (OIG) conducted this audit to determine whether (1) A/LM/AQM established, implemented, and held the contractor accountable for complying with cost controls during the life of task order SAQMMA14F0721 and (2) A/LM/AQM and the Bureau of Near Eastern Affairs (NEA) held the contractor accountable for complying with its cost control plan. In March 2018, OIG issued AUD-MERO-18-31, which addressed the first objective. This report communicates OIG's findings regarding the second objective.

What OIG Recommends

OIG made four recommendations intended to improve the administration and oversight of current and future food services contracts. NEA concurred with one recommendation, which is resolved pending further action. The Bureau of Administration, Office of the Procurement Executive, Office of Acquisition Management (A/OPE/AQM), nonconcurred with three recommendations. On the basis of A/OPE/AQM's responses and proposed actions, one is resolved pending further action and two are unresolved. A synopsis of management's comments follows each recommendation in the Audit Results section of this report. A/OPE/AQM's and NEA's responses to a draft of this report are reprinted in Appendices C and D, respectively.

What OIG Found

In March 2018, OIG reported that the Department established, but did not effectively implement, four cost controls under BLiSS food services task order SAQMMA14F0721. The Contracting Officer partially implemented one of four contractually established cost controls but did not implement the other three. For example, plans to convert BLiSS food services from a cost-reimbursement to a fixed-price task order and to implement a point-of-sale cafeteria system were not implemented. Furthermore, a requirement to limit the number of Department-subsidized meals for individuals who do not live on Department posts in Iraq was not implemented. That report addressed objective 1 of the audit and offered 14 recommendations.

With respect to this report and the second audit objective, OIG found that A/LM/AQM and NEA did not hold PAE accountable for complying with its cost control plan. This occurred, in part, because the BLiSS food services inspection checklist used by contract oversight personnel in Iraq only included steps for monitoring one of seven elements contained in PAE's cost control plan. OIG therefore concludes that contracting personnel did not fulfill their obligations to safeguard the interests of the Department and the public. Moreover, the annual assessments of PAE's cost control efforts were ineffectual.

In addition, OIG found that the Contracting Officer assigned to the BLiSS contract did not comply with the Federal Acquisition Regulation when definitizing the BLiSS food services task order. Specifically, the Contracting Officer did not definitize the option years within the 180-day maximum definitization date, exceeding that requirement by 761 days for option year 1, 368 days for option year 2, and 31 days for option year 3. In response to a July 2016 OIG report describing the Department's challenges in definitizing contracts supporting operations in Iraq, A/LM/AQM issued a directive that established a tracking system to foster timely definitization. Because this problem nonetheless persists, OIG recommends that the Department revisit this issue to determine why the Contracting Officer did not comply with the definitization requirement and implement a corrective action plan.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether (1) the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM),¹ established, implemented, and held the contractor accountable for complying with cost controls during the life of task order SAQMMA14F0721 and (2) A/LM/AQM and the Bureau of Near Eastern Affairs (NEA) held the contractor accountable for complying with its cost control plan.

In March 2018, OIG issued a Management Assistance Report² that addressed the first objective of this audit. This report communicates OIG's findings and recommendations regarding the second objective. See Appendix A for the purpose, scope, and methodology of this audit.

BACKGROUND

Food Services in Iraq

Department of State (Department) personnel working at most U.S. embassies and consulates throughout the world do not reside on post³ grounds but instead live in local neighborhoods and obtain their food from grocery stores or restaurants. However, personnel serving in Iraq are required to live on post grounds and are prohibited from independently leaving to purchase food because of the volatile security situation. Therefore, basic life support services in Iraq, such as food services, are provided through Department-owned, contractor-operated dining facilities.

Baghdad Life Support Services Contract

In July 2013, A/LM/AQM awarded indefinite-delivery, indefinite-quantity contract SAQMMA13D0120—referred to as the Baghdad Life Support Services (BLiSS) contract—to PAE Government Services, Inc. (PAE) for the purpose of providing life support services and logistics functions at various sites in Iraq. Life support services include food acquisition, preparation, and service as well as bottled water acquisition and distribution.

¹ On July 30, 2018, the Assistant Secretary for the Bureau of Administration announced that the Office of Acquisitions Management would begin reporting to the Office of the Procurement Executive (A/OPE/AQM). Therefore, A/OPE/AQM provided the management response to a draft of this report for recommendations 1, 3, and 4 on August 16, 2018 (see Appendix C). However, because this change to the management structure occurred after OIG's audit work was completed and after OIG issued a draft of this report, the report will reflect the original management structure of A/LM/AQM throughout, except for the management responses and corresponding OIG replies to the three aforementioned recommendations.

² *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention* (AUD-MERO-18-31, March 2018).

³ Post means a diplomatic or consular mission of the United States of America, administered or managed by the Department of State.

The BLiSS contract, awarded on behalf of NEA,⁴ has a maximum performance period of 5 years (base year plus 4 option years) and a not-to-exceed cost of \$1 billion (inclusive of all direct costs, indirect costs, and profit/fees). As of December 2017, A/LM/AQM issued 15 task orders under the BLiSS contract with a total funded value of \$645.6 million. The BLiSS contract includes three food services task orders with a total funded value of approximately \$311 million. The largest of these food services task orders is SAQMMA14F0721.⁵

Task Order SAQMMA14F0721

In March 2014, A/LM/AQM awarded BLiSS food services task order SAQMMA14F0721 to PAE to provide food services for the Baghdad Embassy Compound, the Baghdad Diplomatic Support Center, and the U.S. Consulate General in Basrah. As of December 1, 2017, the task order, including the base year and 4 exercised option years, had a total contract value of \$362.5 million (see Table 1).

Table 1: BLiSS Food Services Contract Periods and Values for Task Order SAQMMA14F0721 as of December 2017

Contract Period	Contract Value
Base Year (03/01/2014–11/30/2014)	\$40,657,871
Subtotal	\$40,657,871
Option Year 1 (12/01/2014–11/30/2015)	\$72,590,273
Option Year 2 (12/01/2015–11/30/2016)	\$82,033,642
Option Year 3 (12/01/2016–11/30/2017)	\$83,686,119
Option Year 4 (12/01/2017–11/30/2018)	\$83,519,131
Subtotal	\$321,829,165
Totals	\$362,487,036

Source: OIG-generated from data obtained from BLiSS food services task order SAQMMA14F0721.

Future Support Services Contract

In January 2017, A/LM/AQM issued a request for proposal for the Diplomatic Platform Support Services contract that is to provide a full range of life support services, logistics services, and operations and maintenance services worldwide. The proposed contract has a planned performance period of 10 years and a maximum value not to exceed \$10 billion. This worldwide contract, once awarded, will replace the BLiSS food services task order that is scheduled to expire in November 2018.

⁴ A/LM/AQM awarded the BLiSS contract using funds provided by NEA. Personnel from NEA assist in overseeing the contract and associated task orders.

⁵ For this audit, OIG reviewed the base year and option years 1, 2, and 3 for task order SAQMMA14F0721. Option year 4 for the task order, as well as the other two food services task orders, were not included in the scope of this audit.

Contract Administration and Oversight Responsibilities

A/LM/AQM is responsible for awarding and administering the BLiSS contract and associated task orders. Contracting Officers⁶ within A/LM/AQM are the Department's authorized agents for working with contractors and have sole authority to solicit proposals; negotiate, award, administer, modify, or terminate contracts; and make related determinations and findings on behalf of the Department. Contracting Officers perform duties at the request of the requirements office.⁷ For food services in Iraq, the requirements office is NEA.

In addition to developing and communicating requirements, NEA is responsible for providing funding and overseeing the BLiSS contract and its associated task orders. To assist with that oversight, a Contracting Officer may designate, in writing, technically qualified personnel as a Contracting Officer's Representative (COR) or an Alternate Contracting Officer's Representative (ACOR) to be the Contracting Officer's authorized representatives in the administration of the contract. Collectively, CORs and ACORs serve as the "eyes and ears" of the Contracting Officer to ensure that the Department receives high-quality supplies and services on time, within the agreed-upon price, and in accordance with all contract requirements.⁸ CORs and ACORs who oversee the BLiSS contract and corresponding task orders at the Baghdad Embassy Compound, the Baghdad Diplomatic Support Center, and the U.S. Consulate General in Basrah are part of NEA's Contract Management Office in Iraq.

Prior Reporting on BLiSS Food Services in Iraq

In March 2018, OIG reported⁹ that the Department established, but did not effectively implement, four cost controls under BLiSS food services task order SAQMMA14F0721. Specifically, the Contracting Officer partially implemented the Basic Daily Food Allowance (BDFA)¹⁰—one of four contractually established cost controls—but did not implement plans to convert BLiSS food services from a cost-reimbursement to a fixed-price task order or to establish a point-of-sale cafeteria system. Furthermore, a requirement to limit the number of Department-subsidized meals for individuals who do not live on Department posts in Iraq was not implemented. OIG made 14 recommendations to address the deficiencies identified and questioned costs associated with the food services task order totaling approximately \$45 million.¹¹

⁶ Multiple Contracting Officers perform administrative functions under the BLiSS food services task order; however, for the purpose of this report, OIG will refer to the group of designated Contracting Officers in the singular.

⁷ 14 Foreign Affairs Handbook-2 H-141, "Responsibilities of the Contracting Officer."

⁸ Federal Acquisition Regulation (FAR) 1.602-2(d)(5), "Responsibilities."

⁹ *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention* (AUD-MERO-18-31, March 2018).

¹⁰ The Contracting Officer established a \$20 BDFA for base year operations, but the NEA CORs approved contractor invoices for payment that exceeded that amount by \$3.25 per person, per day. Similarly, the Contracting Officer increased the BDFA for option years 1, 2, and 3 by \$7 per person, per day, without performing the required analysis to justify the increase and demonstrate that the Government received a fair and reasonable price.

¹¹ OIG questioned \$3.55 million in BDFA costs paid from base year operations; \$37.4 million in BDFA costs paid to PAE for option years 1, 2, and 3; and \$4.1 million for unauthorized meals to local national employees.

In a separate report issued in May 2018,¹² OIG reported that NEA officials did not provide sufficient oversight of food safety controls for BLiSS food services task order SAQMMA14F0721; it also did not plan for or conduct sufficient oversight to hold PAE accountable for complying with food safety controls and contract requirements. OIG made seven recommendations to NEA and one recommendation to A/LM/AQM in that report.

AUDIT RESULTS

Finding A. Oversight of Cost Controls for Food Services Requires Improvement

OIG found that A/LM/AQM and NEA did not hold PAE accountable for complying with its cost control plan for BLiSS food service task order SAQMMA14F0721. This occurred, in part, because the BLiSS food services inspection checklist used by the COR and ACORs to conduct oversight only included steps related to monitoring one of seven elements contained in PAE's cost control plan.¹³ Although an NEA official stated that NEA did, in fact, oversee and track the other six cost control measures, NEA provided no evidence that the oversight was documented or incorporated into PAE's performance evaluations. OIG therefore concludes that oversight personnel did not take appropriate steps to safeguard the interests of the Department and the public and that, moreover, the annual assessments of PAE's cost control efforts entered into the Contractor Performance Assessment Reporting System¹⁴ were incomplete and ineffectual.

Monitoring Compliance with the Cost Control Plan

The Department's request for proposal to provide life support services in Iraq under the BLiSS contract required a cost control plan that addressed the following seven elements:

1. Methodologies to segregate and track costs.
2. How to monitor, measure, control, and implement methods to reduce costs over time.
3. The responsibilities of management and supervision in the cost control system.
4. How to document and archive cost control systems' procedures.
5. The performance metrics, standards of performance, and methods of review and approval.
6. How to meet delivery requirements using the plan.
7. How to maximize use of local purchasing and describe performance goals to increase efficiency and reduce cost throughout the life of the contract.

¹² *Audit of Food Safety Controls Under Baghdad Life Support Services Contract Task Order SAQMMA14F0721* (AUD-MERO-18-38, May 2018).

¹³ The BLiSS food services inspection checklist included the following steps to monitor PAE's and Taylors's compliance with the established BDFA rate: evaluating the contractor's self-reported daily headcount for meals, verification that dining facility patrons swiped their meal cards, verification of required warehouse records, verification of food quality received upon delivery, and verification of invoice accuracy.

¹⁴ The Contractor Performance Assessment Reporting System is a Government-wide evaluation reporting tool for all past performance reports on contracts and orders. Its primary purpose is to ensure that current, complete, and accurate information on contractor performance is available for use by source selection officials throughout the entire U.S. Government when awarding contracts and orders.

In response to the request for proposal, PAE developed a cost control plan that the Contracting Officer subsequently incorporated into the contract. In addition, PAE's food services subcontractor, Taylors International Services, Inc. (Taylors), developed a cost control plan specifically for monitoring and controlling costs under BLiSS food services task order SAQMMA14F0721.

OIG analyzed PAE's and Taylors's cost control plans and found that they generally complied with the elements outlined in the Department's request for proposal.¹⁵ OIG also analyzed the BLiSS food services inspection checklist developed and used by NEA but found that it included only one of seven elements of PAE's cost control plan. The element covered in the inspection checklist was the fifth element—the performance metrics, standards of performance, and methods of review and approval. The COR and ACORs monitored this element through PAE's self-reported BDFA. Specifically, an NEA official stated that "the COR team stays actively engaged with PAE" to identify cost control issues or areas of cost savings during routine briefings and that the primary metric that they use to assess cost control is PAE staying "at or below the established BDFA while providing safe, well-received food service." OIG confirmed that the COR and ACORs tracked the BDFA metric using the BLiSS food services inspection checklist.

However, the BLiSS food services inspection checklist did not include steps to oversee PAE's compliance with the other six elements of its cost control plan. An NEA official stated that NEA oversaw and tracked the other cost control measures informally¹⁶ but provided no evidence that the oversight was documented, communicated to the COR, or incorporated into PAE's performance evaluations. For example, the annual performance evaluation for option year 1 rated PAE's performance on cost control as "Very Good,"¹⁷ but the narrative supporting this rating only mentioned BDFA and PAE's efforts in tracking food waste. Therefore, as did the checklist itself, the narrative reflected PAE's compliance with only one of seven elements in PAE's cost control plan and was not a comprehensive assessment of PAE's performance in controlling costs. OIG therefore concludes that NEA's oversight of PAE performance relating to cost controls was unfulfilled and that the annual assessments of PAE's cost control efforts entered into the Contractor Performance Assessment Reporting System were incomplete and ineffectual because

¹⁵ OIG found that PAE's cost control plans satisfied all seven required elements as established within the request for proposal. Taylors also developed a cost control plan, even though it was not required to do so under the BLiSS contract. OIG found that Taylors's cost control plan met the intent of establishing procedures to regulate food services costs but did not fully satisfy two of the seven elements. Specifically, Taylors's cost control plan did not describe how Taylors would increase efficiency and steadily reduce costs over the life of the contract. OIG does not find this to be a reportable condition since Taylors was not required to develop a cost control plan.

¹⁶ In May 2018, an NEA official stated that personnel in Iraq began documenting their informal interactions with PAE on cost control issues in a bi-monthly Services Inspection report under the Program Management Office task order SAQMMA14F0762. OIG did not review any of these inspection reports because this task order is outside the scope of this audit.

¹⁷ The Contractor Performance Assessment Reporting System uses a five-tiered rating system. A "Very Good" rating is the second highest possible rating and indicates that performance meets contractual requirements and exceeds some to the Government's benefit.

the Department's assessment did not reference PAE's compliance with all required BLiSS food cost control elements, including its cost control plan.

Because the Department is transitioning to a new worldwide support services contract that will include food services, A/LM/AQM and NEA have an opportunity to address this issue in the upcoming contract. In the interim, the BLiSS food services inspection checklist should be updated to include steps for monitoring PAE's compliance with all required elements of its cost control plan. Doing so allows the COR and ACORs to adequately assess PAE's performance and have a comprehensive basis for holding PAE accountable in the annual contractor performance evaluations entered into the Contractor Performance Assessment Reporting System. OIG offers the following recommendations:

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) direct the Contracting Officer's Representative for Baghdad Life Support Services (BLiSS) food services task order SAQMMA14F0721 to update, within 30 days, the BLiSS food services inspection checklist to include steps for monitoring and documenting the contractor's compliance with all required elements of its cost control plan and (b) verify that the checklist has been updated and implemented.

Management Response: The Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (A/OPE/AQM), did not concur with the recommendation. However, A/OPE/AQM asked OIG to revise the recommendation "to allot 90 days in lieu of 30 days to review cost control plan monitoring and documentation" for BLiSS food services task order SAQMMA14F0721 and "to determine if the recommended actions are the best fit as the task order is quickly reaching completion."

OIG Reply: Although A/OPE/AQM did not concur with the recommendation, on the basis of A/OPE/AQM's response and proposed alternative actions, OIG considers this recommendation resolved pending further action. As noted above, A/OPE/AQM requested 90 rather than 30 days to review current monitoring and documentation and determine if OIG's recommendation was the "best fit," because the food services task order is approaching completion. OIG agrees to allow A/OPE/AQM 90 days from the date of this report to provide OIG with (1) the results of its review of current cost control plan monitoring and documentation maintained by the CORs and ACORs in support of their monitoring of all seven elements of PAE's contractually required cost control plan and (2) its determination on the best course of action to supply the CORs and ACORs with the proper tools to adequately assess PAE's compliance with all seven elements of its cost control plan and have a comprehensive basis for holding PAE accountable in the annual contractor performance evaluations for the current BLiSS food services task order. This recommendation will be closed when OIG receives and accepts documentation demonstrating that proper actions to meet the intent of the recommendation have been taken.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs incorporate requirements for food services cost controls and a contractor cost control plan into the new worldwide support services contract and develop an acquisition plan that addresses their implementation and comprehensive oversight.

Management Response: NEA concurred with the recommendation, stating that it “will incorporate requirements for food services cost controls and a contractor cost control plan into any food service contracts, such as task orders under the new worldwide support services contract, for which NEA is the program office.”

Although this recommendation was not directed to A/OPE/AQM, it noted that it would “address” this recommendation once the new contract is awarded.

OIG Reply: On the basis of NEA’s concurrence with the recommendation and stated actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA has incorporated requirements for food services cost controls and a contractor cost control plan into food services contracts and task orders for which it is the program office.

OTHER MATTERS

Option Years for BLiSS Food Services Task Order SAQMMA14F0721 Were Not Definitized in Accordance With Federal and Department Requirements and the BLiSS Contract

Federal Acquisition Regulation (FAR) 16.603-1¹⁸ permits the use of a “written preliminary contractual instrument that authorizes the contractor to begin [work] immediately.” FAR 16.603-1 defines this preliminary contractual instrument as a letter contract, which may be used when negotiating a definitive contract is not possible in sufficient time to meet the requirement.¹⁹ FAR 16.603-2(c) requires the letter contract²⁰ to contain a negotiated definitization schedule that includes, among other requirements, a target date for definitization,²¹ which shall be the “earliest practicable date.” The FAR also states that the schedule should provide for definitization of the contract within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first. However, the BLiSS contract established a more stringent timeline for definitizing the task order than required by the FAR, stating that all letter contracts would be definitized no later than 60 days after issuance. According to prior OIG and Government Accountability Office reports, the Government bears the majority of the cost and risk during the undefinitized period and risks paying increased costs

¹⁸ FAR 16.603-1, “Letter Contracts.”

¹⁹ FAR 16.603-2(a).

²⁰ Since the options were not definitized at the time the Department exercised the options via task order modifications, the options meet the criteria for letter contracts and therefore are subject to the definitization requirements for letter contracts in FAR 16.603-2(c).

²¹ The process of reaching agreement on the contract terms, specifications, and price is called definitization.

during this period because the contractor has little incentive to control costs, creating a potential for wasted taxpayer resources. Furthermore, delayed definitization transfers additional cost and performance risk to the Government because contractors are typically reimbursed for all allowable costs incurred before definitization.

OIG reviewed contract documentation for the base year and option years 1, 2, and 3 under BLiSS food services task order SAQMMA140721²² and determined that A/LM/AQM definitized the base year upon award but exercised the option years without definitization via task order modifications. Specifically, the Contracting Officer awarded option years 1, 2, and 3 on December 1, 2014; December 29, 2015; and November 30, 2016, respectively, but did not definitize them until June 29, 2017. Therefore, the Contracting Officer did not definitize the option years within the 180-day maximum definitization date as established by the FAR, exceeding that requirement by 761 days for option year 1, 368 days for option year 2, and 31 days for option year 3. Similarly, the Contracting Officer exceeded the 60-day authorized definitization period by 881 days for option year 1, 488 days for option year 2, and 151 days for option year 3. Comparisons of actual definitization dates for option years 1, 2, and 3 with definitization requirements in the FAR and BLiSS contract are set forth in Tables 2 and 3, respectively. As shown in those figures, whether analyzed pursuant to the contract terms or the FAR provisions, the option years at issue here did not comply with the required definitization schedule.

Table 2: Comparison of Target Definitization Dates for BLiSS Food Services Task Order SAQMMA14F0721 Option Years Versus FAR Requirements

	Option Year 1	Option Year 2	Option Year 3
Award Date	12/01/2014	12/29/2015	11/30/2016
Target Definitization Date	05/30/2015	06/26/2016	05/29/2017
Number of Days Beyond the 180-Day FAR Requirement for Definitization	761*	368*	31*

* As of June 29, 2017, which is the date that A/LM/AQM definitized option years 1, 2, and 3.

Source: OIG-generated from data provided by A/LM/AQM.

²² A/LM/AQM also awarded a fourth option year under task order SAQMMA14F0721, but it was outside the scope of OIG's review.

Table 3: Comparison of Target Definitization Dates for BLiSS Food Services Task Order SAQMMA14F0721 Option Years Versus Contractual Requirements

	Option Year 1	Option Year 2	Option Year 3
Award Date	12/01/2014	12/29/2015	11/30/2016
Target Definitization Date	01/30/2015	02/27/2016	01/19/2017
Number of Days Beyond the 60-Day Contractual Requirement for Definitization	881*	488*	151*

* As of June 29, 2017, which is the date that A/LM/AQM definitized option years 1, 2, and 3.

Source: OIG-generated from data provided by A/LM/AQM.

In addition, FAR 17.207(c)(3), "Exercise of Options," states that the Contracting Officer may exercise options²³ only after determining that doing so is the most advantageous method of fulfilling the Government's need, price, and other relevant factors considered. A/LM/AQM did not provide to OIG a written determination and findings with approval from the Head of the Contracting Activity to extend the period to definitize or to support that the exercise of the option was the most advantageous method of fulfilling the Government's need, as required by the FAR²⁴ and Department of State Acquisition Regulation.²⁵

OIG has previously expressed concerns regarding untimely definitization of contracts. In the *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract*²⁶ issued in July 2016, OIG reported that A/LM/AQM did not comply with negotiated schedules to definitize the Union III Compound task orders within 180 days or before PAE completed 40 percent of the work to be performed. Accordingly, OIG recommended that A/LM/AQM develop and implement a process to ensure that future undefinitized task orders were definitized in accordance with Federal requirements.²⁷ In response to that report, the Department's Head of the Contracting Activity issued a directive that established a tracking system to foster timely definitization. OIG closed the recommendation on the basis of this directive.²⁸ AQM Memorandum 17-01 is available for review in Appendix B.

²³ FAR 17.107, "Options," states that benefits may accrue by including options in a multi-year contract. However, options should not include charges for plant and equipment already amortized or other nonrecurring charges included in the basic contract.

²⁴ FAR 16.603-2(c) states that the Contracting Officer may, in extreme cases and according to agency procedures, authorize an additional period for contract definitization.

²⁵ Department of State Acquisition Regulation 616.603-2(c), "Letter Contracts," states that the Contracting Officer, after obtaining approval of the Head of the Contracting Activity, is authorized to extend the period to definitize a letter contract in accordance with FAR 16.603-2(c) and when such action is in the best interest of the Government.

²⁶ AUD-MERO-16-41, July 2016.

²⁷ Recommendation 7 in OIG report AUD-MERO-16-41 recommended that A/LM/AQM develop and implement a process to ensure undefinitized task orders are definitized within 180 days after the date of the letter contract or before completion of 40 percent of the work to be performed, whichever occurs first, as required by the FAR. This process should include a method for tracking elapsed time frames on UCAs.

²⁸ "Definitization of Letter Contracts/Undefinitized Contract Actions (UCA)" (AQM Memorandum 17-01).

Given the findings of this audit, OIG notified the Department's Head of the Contracting Activity regarding the BLISS Contracting Officer's noncompliance with the FAR, the BLISS contract, and the A/LM/AQM policy memorandum for definitizing option years 1, 2, and 3.²⁹ The Head of the Contracting Activity stated that the Contracting Officer should have received written approval by an authorized official before deviating from the policy. Because OIG previously described the Department's challenges in definitizing contracts supporting operations in Iraq in July 2016, OIG believes this issue should be revisited to determine why the Contracting Officer did not comply with the definitization requirement. Prompt attention to this issue is warranted because, if contracts are not definitized in a timely manner, the Department could pay increased costs because the contractor has little incentive to control costs, creating the potential for wasted taxpayer resources.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the cause(s) of Contracting Officer noncompliance with definitization requirements—established in Federal Acquisition Regulation 16.603 and Memorandum 17-01, *"Definitization of Letter Contracts/Undefined Contract Actions (UCA)"*—and develop and implement a corrective action plan to prevent and deter future noncompliance.

Management Response: A/OPE/AQM did not concur with the recommendation, stating that the Contracting Officer "followed AQM policy." A/OPE/AQM also stated that, to close similar OIG recommendations, it has trained staff through an annual mandatory briefing, the last of which was held in June 2017 and the next of which is planned for "either [FY] 2019 Quarter 1 or Quarter 2."

OIG Reply: On the basis of A/OPE/AQM's nonconurrence with the recommendation, OIG considers this recommendation unresolved. A/OPE/AQM stated that the Contracting Officer followed AQM Memorandum 17-01 (see Appendix B). A/OPE/AQM, however, did not disagree with the factual analysis in the report, which explained that the Contracting Officer did not definitize the 3 option years under the BLISS food services task order within the 180-day maximum definitization date as established by the FAR and reiterated in AQM Memorandum 17-01. In particular, the report explains that definitization was late by 761 days for option year 1, 368 days for option year 2, and 31 days for option year 3. Furthermore, AQM Memorandum 17-01 states that if definitization is expected to take longer than 180 days, the Contracting Officer is responsible for obtaining written approval for an extension from the Head of the Contracting Activity, which would only be granted in "extreme cases." No such written approval was provided to OIG to show compliance with that requirement. Therefore, OIG requests that A/OPE/AQM reconsider its position on Recommendation 3, which will be resolved when A/OPE/AQM agrees to (1) assess the cause(s) of Contracting Officer noncompliance with definitization requirements established in FAR 16.603 and AQM Memorandum 17-01 and (2) develop and implement a corrective

²⁹ A/LM/AQM officials stated that they were familiar with the FAR requirements for definitization; however, a Department official cited—in part—a constant backlog of workload as the primary reason for not timely definitizing option years 1, 2, and 3 under task order SAQMMA14F0721.

action plan to prevent and deter future noncompliance. This recommendation will be closed when OIG receives and accepts documentation demonstrating that such actions have been taken.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, update Memorandum 17-01, *“Definitization of Letter Contracts/Undefinitized Contract Actions (UCA),”* to outline administrative actions to be taken against Contracting Officers if they do not comply with Federal regulations and Department policy for timely definitization of letter contracts.

Management Response: A/OPE/AQM did not concur with the recommendation, stating that it “does not believe a procurement policy document is an appropriate forum to describe formal and/or punitive actions.” A/OPE/AQM stated that its managers are “encouraged to promote a healthy and congenial work environment and to be accessible to employees for mentoring, guidance, and training” and that its management philosophy is to “engender opportunity for success.” A/OPE/AQM further stated that if a performance issue is identified, managers discuss the issue with the employee and seek to ensure that the employee has access to training and other resources; in certain cases, A/OPE/AQM managers engage with Human Resources to attempt to document and correct poor performance.

OIG Reply: On the basis of A/OPE/AQM’s nonconcurrence with the recommendation, OIG considers this recommendation unresolved. OIG is not suggesting that a policy document is an appropriate forum to discuss employee-specific performance issues, and it agrees that mentoring, guidance, and training are effective and preferred methods to improve and enhance employee performance. The memorandum in question, however, provides a range of guidance regarding definitization—when it should occur, how it should occur, and why it should occur. OIG’s recommendation seeks to ensure that, along with the existing information, the memorandum also apprises employees of the potential consequences for failure to comply with regulations and internal policy. Providing this information would not be “punitive;” instead, it would ensure that Contracting Officers are fully informed of those potential consequences and will help foster an environment of transparency and accountability within the Department’s contracting workforce.

OIG notes that this is the third report in 3 years that addresses the issue of contract definitization.³⁰ OIG accordingly concludes that this is a persistent issue that requires the immediate attention of A/OPE/AQM leadership. This recommendation will be resolved when A/OPE/AQM agrees to update Memorandum 17-01 to outline administrative actions that may be taken against Contracting Officers if they do not comply with Federal regulations and Department policy for timely definitization of letter contracts or when it proposes an acceptable alternative that meets the intent of this recommendation. This recommendation

³⁰ The other two OIG reports that addressed untimely definitization are the *Audit of the Bureau of International Narcotics and Law Enforcement Affairs Aviation Support Services Contract in Iraq* (AUD-MERO-15-35, July 2015) and the *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract* (AUD-MERO-16-41, July 2016).

will be closed when OIG receives and accepts documentation demonstrating that such actions have been taken.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) direct the Contracting Officer's Representative for Baghdad Life Support Services (BLiSS) food services task order SAQMMA14F0721 to update, within 30 days, the BLiSS food services inspection checklist to include steps for monitoring and documenting the contractor's compliance with all required elements of its cost control plan and (b) verify that the checklist has been updated and implemented.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs incorporate requirements for food services cost controls and a contractor cost control plan into the new worldwide support services contract and develop an acquisition plan that addresses their implementation and comprehensive oversight.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the cause(s) of Contracting Officer noncompliance with definitization requirements—established in Federal Acquisition Regulation 16.603 and Memorandum 17-01, *"Definitization of Letter Contracts/Undefinitized Contract Actions (UCA)"*—and develop and implement a corrective action plan to prevent and deter future noncompliance.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, update Memorandum 17-01, *"Definitization of Letter Contracts/Undefinitized Contract Actions (UCA)"*, to outline administrative actions to be taken against Contracting Officers if they do not comply with Federal regulations and Department policy for timely definitization of letter contracts.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether (1) the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), established, implemented, and held the contractor accountable for complying with cost controls during the life of task order SAQMMA14F0721 and (2) A/LM/AQM and the Bureau of Near Eastern Affairs (NEA) held the contractor accountable for complying with its cost control plan.

This report relates to the overseas contingency operation, Operation Inherent Resolve, and was completed in accordance with OIG's oversight responsibilities described in Section 8L of the Inspector General Act of 1978, as amended. OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

OIG conducted this audit from May 2017 through June 2018. OIG performed audit work at the U.S. Consulate General Frankfurt, Germany, and in Iraq at the Baghdad Embassy Compound, the Baghdad Diplomatic Support Center, and the U.S. Consulate General Basrah. OIG's audit work focused on the Baghdad Life Support Services (BLiSS) indefinite-delivery, indefinite-quantity contract SAQMMA13D0120 and corresponding task order SAQMMA14F0721 for food services in Iraq, along with modifications to the contract and task order. The audit was limited to food services performed from March 2014 to November 2017.

To obtain background information for this audit, OIG researched and reviewed Federal laws and regulations as well as internal Department policies, procedures, and other guidance. Specifically, OIG reviewed the Federal Acquisition Regulation, the Foreign Affairs Handbook, the Department of State Acquisition Regulations, and AQM Memorandum 17-01, "*Definitization of Letter Contracts/Undefinitized Contract Actions (UCA)*." To determine whether A/LM/AQM and NEA held the contractor accountable for complying with the contractor's cost control plan, OIG coordinated with or interviewed officials from A/LM/AQM, NEA—including Contract Management Office officials in Iraq—PAE Government Services, Inc. (PAE), and Taylors International Services, Inc., PAE's food services subcontractor. OIG reviewed and analyzed BLiSS contract SAQMMA13D0120, task order SAQMMA14F0721, modifications to the contract and task order, PAE's cost control plan, and the contractor performance assessment reports for task order SAQMMA14F0721.

Prior Reports

OIG issued two reports in 2018 related to the BLiSS food services task order and one report in 2016 with a finding on contract definitization. In the *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require*

Attention,¹ OIG reported that A/LM/AQM did not effectively implement contractually established cost controls to protect the Department's financial interests. As a result, OIG questioned approximately \$45 million, of which \$3.55 million was paid in Basic Daily Food Allowance costs during the base year and \$37.4 million was paid in Basic Daily Food Allowance costs for option years 1, 2, and 3. OIG also reported that the Department paid approximately \$4.1 million for unauthorized meals for local national employees. OIG made 14 recommendations to the Department to address identified questioned costs and noncompliance with the contract terms and conditions. As of March 2018, OIG considers all 14 recommendations resolved pending further action.

In the *Audit of Food Safety Controls Under Baghdad Life Support Services Contract Task Order SAQMMA14F0721*,² OIG reported that NEA officials did not provide sufficient oversight of food safety controls for BLiSS food services task order SAQMMA14F0721. Specifically, NEA did not verify that PAE or its food services subcontractor implemented comprehensive Hazard Assessment and Critical Control Point Plans for each site in Iraq, as required by the contract. OIG also reported that NEA did not plan or conduct sufficient oversight to hold PAE accountable for complying with food safety controls and contract requirements. For example, NEA personnel did not develop a comprehensive quality assurance surveillance plan, maintain pertinent oversight documentation in the COR file, and complete timely contractor performance assessment report narratives. OIG concluded that there is an increased risk that food safety hazards could go undetected and that the Department was hampered in fully assessing PAE's performance and holding PAE accountable for fulfilling BLiSS food safety controls and contract requirements. OIG addressed seven recommendations to NEA and one to A/LM/AQM. As of May 2018, OIG considers five recommendations resolved pending further action and three recommendations unresolved awaiting resolution.

In the *Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services Contract*,³ OIG reported that A/LM/AQM did not comply with negotiated schedules to definitize the Union III Compound task orders within 180 days or prior to PAE completing 40 percent of the work to be performed. OIG concluded that the Government could pay increased costs because PAE had little incentive to control costs, creating the potential for wasted taxpayer dollars. OIG issued one recommendation to NEA to clearly define its requirements for the Union III Compound and provide them to A/LM/AQM. OIG also made two recommendations to A/LM/AQM to definitize the Union III Compound task orders and develop and implement a process to definitize future undefinitized task orders within Federal and Department requirements. As of July 2018, OIG considers all three recommendations closed.

¹ AUD-MERO-18-31, March 2018.

² AUD-MERO-18-38, May 2018.

³ AUD-MERO-16-41, July 2016.

Use of Computer-Processed Data

OIG did not use computer-processed data as evidence for this audit. Therefore, information systems controls were not significant to the audit objectives and it was not necessary to assess the usage of controls for computer-processed data.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG reviewed BLISS contract SAQMMA13D0120 and task order SAQMMA14F0721 as they related to cost controls and compared identified requirements against procedures executed by NEA oversight personnel to determine whether they appropriately administered and monitored the contract. OIG also performed tests of internal controls, including a review of the contract and documented quality assurance procedures, and verified their implementation against documentation that noted PAE's performance. Significant internal control deficiencies identified during the audit are presented in the Audit Results section of this report.

APPENDIX B: AQM MEMORANDUM 17-01

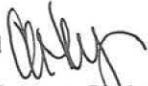


United States Department of State

Washington, D.C. 20520

AQM Memorandum 17 – 01

TO: AQM Personnel

FROM: A/LM/AQM Cathy Read 

SUBJECT: Definitization of Letter Contracts/Undefined Contract Actions (UCA)

REFERENCE: FAR 16.603 and DOSAR 616.03

Purpose

The purpose of this AQM Memo is to establish when Letter Contracts and other undefinitized contract actions may be used, establish the need for the HCA to approve all such actions, and establish a tracking system to ensure timely definitization of the UCAs.

Definition of UCAs

Undefinitized Contract Actions (UCA) are actions where the contract terms and conditions, specifications, or prices have not been agreed to prior to commencing performance. Examples are letter contracts, orders under basic ordering agreements for which the price was not agreed upon prior to work commencing and adding tasks to existing contracts or delivery orders immediately with a settlement to be agreed upon later.

Letter Contracts/UCA contract actions shall only be used in the following situations:

- The negotiation of a definitive contract is not possible in sufficient time to meet the Government's requirements; and
- The Government's interest demands that the Contractor be given a binding commitment so that contract performance can begin immediately, and shall be complete and definite as feasible under the circumstances.

Letter Contracts are preliminary written contractual documents written in accordance with FAR 16.603 authorizing the contractor to begin manufacturing supplies or performing services. Letter Contracts may only be used after the Head of the Contracting Activity (HCA) or a designee, determines in writing that no other contract is suitable.

Undefinitized contract actions of other types are not directly addressed by the FAR. However, their effect is the same as for a letter contract. Therefore, any action which starts performance without definite terms, conditions and price awarded is required to have the same HCA approvals as letter contracts. Please take care not to authorize out of scope work on awarded contracts without getting a D&F approved by the HCA first.

The contracting officer determines the definitization schedule, but actions must be definitized within 180 days after the date of the letter contract or before 40 percent of the work is performed, whichever occurs first. Both may be extended in extreme cases via a D&F approved by the HCA.

In response to a recent OIG report, AQM agreed to create a system to identify and track UCAs, to include letter contracts. The letter contract definitization time frames and rules in FAR 16.603 apply for all UCAs.

Approval of Letter Contracts and other UCAs

In addition to the letter contract reviews required by the AQM QA Plan, a separate Determination and Finding (D&F) requesting approval to use a letter contract/UCA shall also be submitted to the HCA for approval. Definitization plans shall be included. Definitization plans, a copy of the letter contract and a copy of the signed D&F must be sent to the specially established AQM Letter Contracts mailbox ASAP but not later than 30 days after D&F approval.

AQM/BOD Tracking Procedures

The CO/CS must submit the required information on the attached Tracking Request and Monthly Progress Update along with a copy of the Letter Contract/UCA approval D&F to the AQM Letter Contracts mailbox for input to a UCA tracking SharePoint site.

Provide a copy of the negotiated definitization schedule to AQM Letter Contract mailbox as soon as available.

The CO must place a completed copy of the attached Letter Contract/UCA Checklist in the contract file.

The CO/CS will send a status report which includes the status of the definitization as well as the percent of work completed to AQM/BOD through the AQM Letter Contract mailbox by the 10th day of every month using the Letter Contract Monitoring form. . AQM/BOD will advise the Branch Chief/Division Director of the status.

Provide a copy of the definitization modification (SF 30) to the AQM Letter Contract mailbox when executed in order to close the monitoring.

The CO/CS is responsible for definitizing all Letter Contracts/UCA in a timely manner. If definitization is expected to take longer than 180 days or more than 40 percent of the work will be performed before definitization, the CO/CS is responsible for ensuring a D&F extending the timeline for definitization has been reviewed/approved by the HCA and a copy of that signed D&F is submitted to AQM/BOD through the AQM Letter Contract mailbox. Please note that D&F extending the timeline will only be granted in extreme cases.

Personnel will have read only access to the UCA tracking SharePoint site at http://a.m.state.sbu/sites/LM/AQM/Lists/AQM_Letter_Contracts_DataSheet/AllItems.aspx

Bottom Line

These procedures will increase CO workload slightly but places UCAs under management control. It increases visibility to ensure definitization is completed in a timely manner. AQM/BOD will monitor dates and ensure COs are reminded of open UCAs.

Attachments:

- (1) Letter Contract Checklist
- (2) Required Information for Monitoring Letter Contracts

APPENDIX C: BUREAU OF ADMINISTRATION, OFFICE OF THE PROCUREMENT EXECUTIVE RESPONSE



United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

August 16, 2018

MEMORANDUM

TO: OIG/AUD – Norman Brown

FROM: A/OPE – Cathy Read 

SUBJECT: Draft OIG Report on *Audit of Cost Controls Within the Baghdad Life Support Services Contract Food Services Task Order SAQMMA14F0721* (AUD-MERO-18-XX)

Thank you for the opportunity to provide our comments on the subject draft OIG Inspection Report. The point of contact for this response is Matthew Colantonio at colantonioj@state.gov.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) direct the Contracting Officer's Representative for Baghdad Life Support Services (BLiSS) food services task order SAQMMA14F0721 to update, within 30 days, the BLiSS food services inspection checklist to include steps for monitoring and documenting the contractor's compliance with all required elements of its cost control plan and (b) verify that the checklist has been updated and implemented.

Management Response to Draft Report (08/16/2018): The Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management (AQM) does not concur. AQM will coordinate with the Bureau of Near Eastern Affairs (NEA) to review the recommendation for additional COR monitoring and documentation, and will ensure the Diplomatic Platform Support Services (DiPPS) indefinite-quantity, indefinite-delivery (IDIQ) contract is implemented with sufficient oversight. For SAQMMA14F0721, AQM requests a revision to the recommendation to allot 90 days in lieu of 30 days to review cost control plan monitoring and documentation, and to determine if the recommended actions are the best fit as the task order is quickly reaching completion.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs incorporate requirements for food services cost controls and a contractor cost control plan into the new worldwide support services contract and develop an acquisition plan that addresses their implementation and comprehensive oversight.

Comment to Draft Report (08/16/2018): AQM will address the OIG recommendation once DiPPS is awarded. Attached on Tab 1 and 2 are Section J annexes to the solicitation that describe cost controls required by the contractor. AQM will not amend or develop a new acquisition plan for DiPPS as the solicitation is currently in source selection and award is imminent.

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Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, assess the cause(s) of Contracting Officer noncompliance with definitization requirements—established in Federal Acquisition Regulation 16.603 and Memorandum 17-01, “Definitization of Letter Contracts/Undefinitized Contract Actions (UCA)”—and develop and implement a corrective action plan to prevent and deter future noncompliance.

Management Response to Draft Report (08/16/2018): AQM does not concur. The contracting officer has followed AQM policy (Tab 3) and AQM has trained staff to close similar OIG recommendations by presenting an annual “Hot Topics” mandatory briefing. See Tab 4 for training slides from June 2017. AQM has not held a “Hot Topics” briefing in 2018 but is planning to conduct the next session in either Fiscal Year 2019 Quarter 1 or Quarter 2.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, update Memorandum 17-01, “Definitization of Letter Contracts/Undefinitized Contract Actions (UCA),” to outline administrative actions to be taken against Contracting Officers if they do not comply with Federal regulations and Department policy for timely definitization of letter contracts.

Management Response to Draft Report (08/16/2018): AQM does not concur and does not believe a procurement policy document is an appropriate forum to describe formal and/or punitive actions that require AQM management to engage with the A Bureau Executive Directorate and appropriate Department human resources personnel. AQM managers are encouraged to promote a healthy and congenial work environment and to be accessible to employees for mentoring, guidance, and training. Furthermore, our management philosophy is to engender opportunity for success. If a performance issue is identified within the workforce, managers discuss the issue with the employee and seek to ensure the employee has access to training and other resources to better equip them, if needed. In certain cases, AQM managers engage with human resources to attempt to document and attempt to correct poor performance.

Attachments:

- Tab 1 – SAQMMA16R0106 A005 Attachment 3.
- Tab 2 – SAQMMA16R0106 A005 Attachment 4.
- Tab 3 – AQM Policy 17-01.
- Tab 4 – Hot Topics June 2017 Undefinitized Actions.

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APPENDIX D: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE



United States Department of State

Washington, D.C. 20520

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August 9, 2018

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: NEA – Deputy Executive Director Jefferson Smith *JS*

SUBJECT: NEA Response to draft report: *Audit of Cost Controls Within the Baghdad Life Support Services Contract Food Services Task Order SAQMMMA14F0721 (AUD-MERO-18-XX)*

Thank you for giving us the opportunity to respond to this draft report. NEA agrees that cost control measures in our food services task order in Iraq are important and the bureau has been working with post to strengthen cost control efforts under the current contract and in anticipation of a new contract solicitation. We will continue to work with A/LM/AQM to ensure appropriate cost controls are established as recommended by the OIG.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs incorporate requirements for food services cost controls and a contractor cost control plan into the new worldwide support services contract and develop an acquisition plan that addresses their implementation and comprehensive oversight.

Management Response: NEA concurs with this recommendation. NEA will incorporate requirements for food services cost controls and a contractor cost control plan into any food service contracts, such as task orders under the new worldwide support services contract, for which NEA is the program office.

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ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
A/OPE/AQM	Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management
ACOR	Alternate Contracting Officer's Representative
COR	Contracting Officer's Representative
Department	Department of State
NEA	Bureau of Near Eastern Affairs
OIG	Office of Inspector General
PAE	PAE Government Services, Inc.
Taylors	Taylors International Services, Inc.

OIG AUDIT TEAM MEMBERS

Melinda Perez, Director
Middle East Region Operations
Office of Audits

Holly Engebretsen, Audit Manager
Middle East Region Operations
Office of Audits

Christopher Groubert, Auditor
Middle East Region Operations
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